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Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-25 IO-14 ISO-00 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-20

STR-08 CEA-02 L-03 H-03 DODE-00 PA-04 USIA-15 PRS-01

AGR-20 NEA-11 FEA-02 DRC-01 /216 W
---------- 087728
P R 251245Z JAN 74
FM USMISSION EC BRUSSELS
TO SECSTATE WASHDC PRIORITY 6328
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS UNN
AMEMBASSY COPENHAGEN
AMEMBSSY DUBLIN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
USMISSION GENEVA
USMISSION OECD PARIS UNN

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PASS TREASURY, FRB AND CEA

E.O.11652: N/A
TAGS: EFIN, EEC
SUBJECT: EC COMMISSION CALLS FOR URGENT INTERNATIONAL MONETARY
MEASURES (REPORTED SEPTEL) -- MISSION COMMENT

REFS: A. EC BRUSSELS 0472 B. EC BRUSSELS 369 C. PARIS 1938
D. EC BRUSSELS 0350

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1. SUMMARY: A NUMBER OF EC COMMISSIONOFFICIALS

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HAVE CONFIRMED TO US THAT THE COMMISSION'S STATEMENT TO THE COUNCIL CALLING FOR URGENT MONETARY MEASURES (REF A) REFLECTS THE COMMISSION'S STRONG REACTION TO THE FRENCH FLOAT, AS WELL AS ITS CONTINUED SERIOUS CONCERN OVER THE DETERIORATING SITUATION IN THE COMMUNITY. OUR CONTACTS ARE NOT OPTIMISTIC THAT THE COUNCIL WILL REACT POSITIVELY TO THE COMMISSION'S RECOMMENDATIONS. ALTHOUGH THE COMMISSION HAS COME OUT IN FAVOR OF A HIGHER GOLD PRICE FOR TRANSACTIONS BETWEEN EC MONETARY AUTHORITIES IN ORDER TO BRING GOLD ARRANGEMENTS, OUR CONTACTS SERIOUSLY DOUBT THE EC CENTRAL BANK GOVERNORS WILL APPROVE SUCH A MEASURE -- LARGELY OWING TO GERMAN OPPOSITION.

2. THERE IS STILL NO DECISION ON WHETHER A SPECIAL EC COUNCIL (FINANCE) WIL MEET SOON TO DISCUSS THE MONETARY SITUATION. END SUMMARY.

3. COMMISSION OFFICIALS HAVE CONFIRMED TO US THAT THE COMMISSION'S EXHORTATION TO THE EC COUNCIL TO TAKE URGENT MEASURES ON THE MONETARY FRONT IS CLEAR EVIDENCE OF THE COMMISSION'S STRONG REACTION TO THE FRENCH FLOAT. ALTHOUGH THE COMMISSION'S STATEMENT MAKES NO DIRECT REFERENCE TO FRANCE, THERE IS LITTLE DOUBT THAT THE STRICUTRES AGAINST PROTECTIONIST MEASURES AND COMPETITIVE DEVALUATIONS WERE PROVOKED BY THE FENCH ACTION. SINCE REF B WAS TRANSMITTED, COMMISSION OFFICIALS WITH WHOM WE HAVE SPOKEN CONTINUE TO EXPRESS THE VIEW THAT THE FRENCH MOVE CAME AS A COMPLETE SURPRISE AND THAT THE MANNER IN WHICH IT WAS DONE -- THAT IS, WITH NO EFFECTIVE CONSULTATION -- MADE A MOCKERY OF COMMUNITY PROCEDURES.

4. COMMISSION OFFICIALS SAY THAT IF THE FRENCH WERE SINCERE IN THEIR PROFESSED COMMITMENT TO MONETARY INTEGRATION, THEY COULD HAVE REQUESTED AN URGENT COUNCIL MEETING TO DISCUSS HOW TO COPE WITH THEIR LOSSES OF RESERVES. THE COMMISSION BELIEVES THAT AT BOTH THE WP-3 MEETING AND THE C-20 DISCUSSIONS
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IN ROME, THE FRENCH WENT ALONG WITH THE IDEA OF REFRAINING AT THIS TIME FROM MEASURES AIMED AT CURRENT ACCOUNT BALANCES IN RESPONSE TO THE ENERGY SITUATION. SINCE THE FRENCH DID NOT HAVE ANY OTHER SORT OF BALANCE OF PAYMENTS PROBLEM, THEIR ACTION IS VIEWED IN COMMISSION CIRCLES AS A DISGUISED COMPETITIVE DEVALUATION, DISRUPTIVE OF COMMUNITY SOLIDARITY (REF C). COMMISSION

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OFFICIALS BELIEVE THAT OTHER COUNTRIES MAY
TRY TO FOLLOW SUIT IF THE FRENCH MEASURES RESULT IN
THE FRENCH BEING BETTER PROTECTED THAN THEIR
NEIGHBORS FROM THE PRODUCTION AND EMPLOYMENT
EFFECTS OF THEENERGY CRISIS.

5. DESPITE PROCLAMATIONS BY THE FRENCH OF THEIR
CONTINUED COMMITMENT TO ECONOMIC AND MONETARY UNION,
MOST -- THOUGH NOT ALL -- OF OUR CONTACTS VIEW SUCH
STATEMENTS WITH UNDISGUISED SKEPTICISM. THEY ALSO
ARE PESSIMISTIC ABOUT THE CHANCES FOR A POSITIVE
RESPONSE BY THE COUNCIL TO THE COMMISSION'S LATEST
INTITIATIVES (REF A).

6. OUR CONTACTS ARE REFERRING TO THE COMMISSION'S
PROPOSALS ON MOBILIZATION OF RESOURCES FROM INTERNATIONAL
CAPITAL MARKETS AS "ORTOLI BONDS". THE
COMMISSION BELIEVES THAT BOND ISSUES TO RECYCLE
ARAB OIL EARNINGS WOULD HELP DEAL WITH ANTICIPATED
BALANCE OF PAYMENTS PROBLEMS.

7. THE ANNOUNCEMENT BY EC COMMISSION VICE PRESIDENT HAFERKAMP
IS THE FIRST TIME THE COMMISSION HAS FORMALLY EMBRACED THE PROPOSAL
TO MODIFY THE PRICE OF GOLD IN TRANSACTIONS BETWEEN EC
MONETARY AUTHORITIES, ALTHOUGH THEIDEA HAS BEEN
DISCUSSED IN RECENT MONTHS AT THE WORKINGLEVEL IN
THE COMMISSION. HAFERKAMP, IN PRESENTING THE PROPOSAL, STRESSED
THAT EC MEMBER STATES COULD AGREE ON A PROVISIONAL
PRICE FOR GOLD SUBJECT TO MODIFICATION IN THE EVENT
OF WORLDWIDE AGREEMENT ON A NEW OFFICIAL PRICE.
DESPITE THE COMMISSION'S REFERENCE IN ITS DECLARATION
TO GOLD TRANSACTIONS BOTH WITHIN THE COMMUNITY
AND INTENATIONALLY, A RANKING COMMISSION OFFICIAL
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WHOM WE QUESTIONED ON THE SUBJECT HAS ASSURED US
THE COMMISSION'S SOLE INTENT IS TO UNFREEZE GOLD
IN INTRA-COMMUNITY SETTLEMENTS. THE COMMISSION IN
NO WAY WISHES TO PREJUDGE THE ROLE OF GOLD IN A
REFORMED INTERNATIONAL MONETARY SYSTEM.

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PASS TREASURY, FRB AND CEA

8. ACCORDING TO SOME OF OUR CONTACTS, THE GOLD PROPOSAL MAY HAVE BEEN BROUGHT FORTH MORE QUICKLY THAN ANTICIPATED AS A RESULT OF GROWING FRENCH INDEBTEDNESS TO THE BUNDESBANK. THIS HAD REACHED THE POINT WHERE THE FRENCH WOULD HAVE HAD TO REPAY IN GOLD -- INTO A SPECIAL ACCOUNT AT THE OFFICIAL PRICE, SUBJECT TO LATER UPWARD REVISION -- UNLESS SOME OTHER ARRANGEMENT COULD BE WORKED OUT WITH THE
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GERMANS WHEN RECENT FRENCH DEBTS FALL DUE AT THE END OF FEBRUARY. (IT WIL BE RECALLED THAT UNDER THE RULES GOVERNING INTRA-COMMUNITY SETTLEMENTS, DEBTS HAVE TO BE REPAID AT THE END OF THE MONTH

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FOLLOWING THE ONE IN WHICH THEY ARE INCURRED AND IN ACCORDANCE WITH THE COMPOSITION OF MEMBER STATE RESERVZS.) ALL THOSE MEMBER STATES THAT HAVE SUBSTANTIAL GOLD RESERVES AND DEBTS VIS-A-VIS OTHER MEMBER STATES WOULD APPEAR TO HAVE AN INTEREST IN AVOIDING GOLD SETTLEMENTS AT THE CURRENT OFFICIAL PRICE.

9. THE COMMISSION BELIEVES THAT HIGHER PRICE FOR GOLD WOULD FACILITATE THE FUNCTIONING OF THE COMMUNITY'S INTERNAL MONETARY ARRANGEMENTS BY BRINGING GOLD BACK INTO THE SYSTEM AND THUS STRENGTHENING THE RESOURCES OF THE EC MONETARY COOPERATION FUND. SHOULD A HIGHER GOLD PRICE EVENTUALLY BE AGREED UPON INTERNATIONALLY, THE COMMISSION SEES OBVIOUS ADVANTAGES IN THE RESULTING REVALUATION OF EC MONETARY RESERVES IN THE FACE OF EXPECTED LARGE CURRENT ACCOUNT DEFICITS.

10. AT THE SAME TIME, OUR CONTACTS STATE THAT ALTHOUGH THE GOLD PROPOSAL IS CERTAIN TO HAVE THE SUPPORT OF FRANCE AND ITALY, THEY SERIOUSLY DOUBT THE EC CENTRAL BANK OGVERNORS WILL ARROVE IT BECAUSE OF GERMAN OPPOSITION. ASIDE FROM THEIR SENSITIVITY TO POSSIBLE U.S. OPPOSITION, THE GERMANS ARE SAID TO BELIEVE THEY COULD NOT IN ANY CASE MAKE USE OF GOLD ACCRUING TO THEM SO LONG AS ITS ROLE IN A REFORMED INTERNATIONAL MONETARY SYSTEM IS NOT SETTLED.

11. THE PERM REPS HAVE NOT YET DISCUSSED THE THE QUESTION OF A SPECIAL EC COUNCIL (FINANCE) MEETING ON THE MONETARY S*TUATION (REF D). (ORTOLI HAS WRITTEN TO SCHEEL ASKING FOR SUCH A MEETING). IT IS STILL NOT KNOWN IF AND WHEN SUCH A MEETING WILL TAKE PLACE. GREENWALD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, AGREEMENTS, FOREIGN EXCHANGE RATES, BALANCE OF PAYMENTS, CURRENCIES, FRANC
Control Number: n/a
Copy: SINGLE
Draft Date: 25 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ECBRU00484
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740116/aaaaaotb.tel
Line Count: 258
Locator: TEXT ON-LINE
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A. EC BRUSSELS 0472 B. EC BRUSSELS 3, 69 C. PARIS 1938
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 27 MAR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 MAR 2002 by worrelsw>; APPROVED <29 MAY 2002 by morefirh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EC COMMISSION CALLS FOR URGENT INTERNATIONAL MONETARY MEASURES (REPORTED SEPTEL) -- MISSION COMMENT
TAGS: EFIN, EEC
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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